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COMPUTERS/COMMUNICATIONS: HOW TO BYPASS YOUR LOCAL TELEPHONE COMPANY

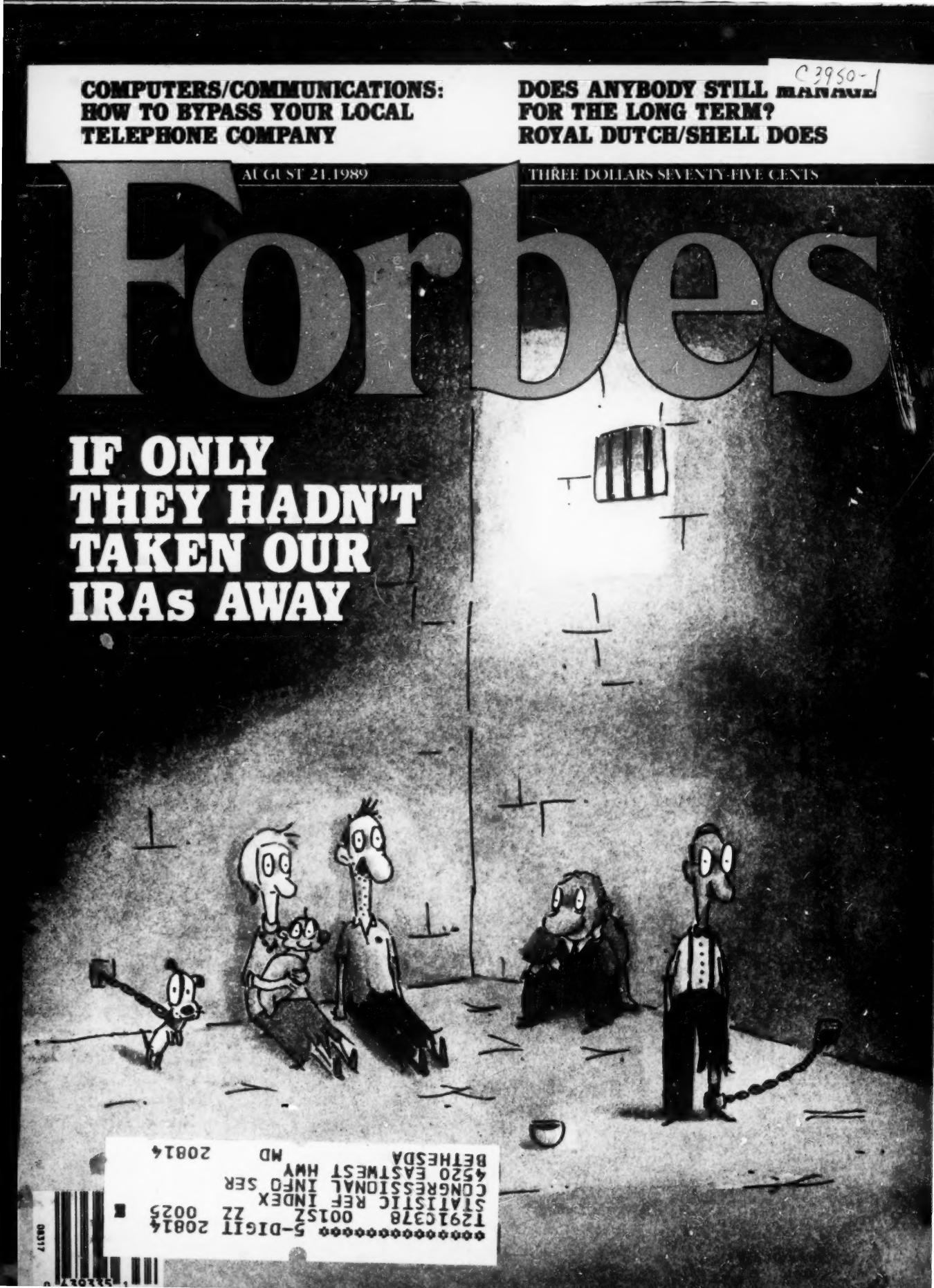
DOES ANYBODY STILL MANAGE FOR THE LONG TERM? ROYAL DUTCH/SHELL DOES

AUGUST 21,1989

THREE DOLLARS SEVENTY-FIVE CENTS

Forbes

IF ONLY THEY HADN'T TAKEN OUR IRAs AWAY



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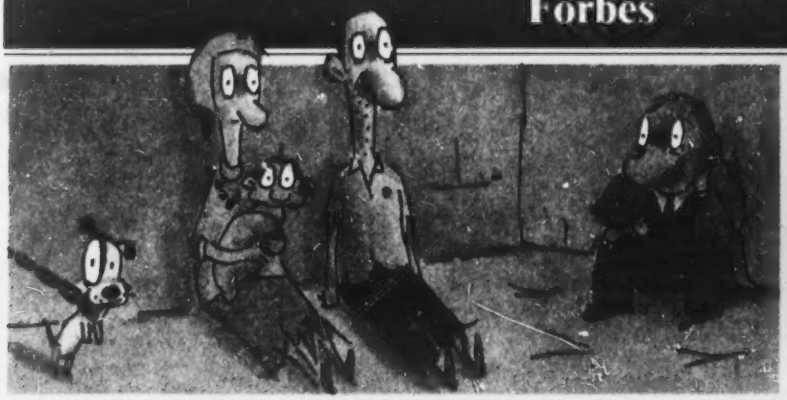

Cover illustration by Patrick McDonnell

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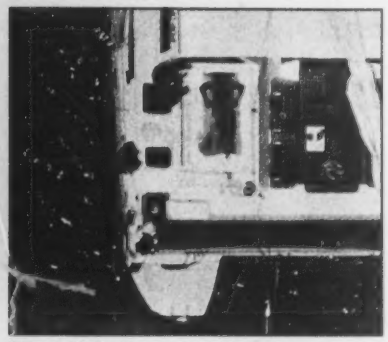

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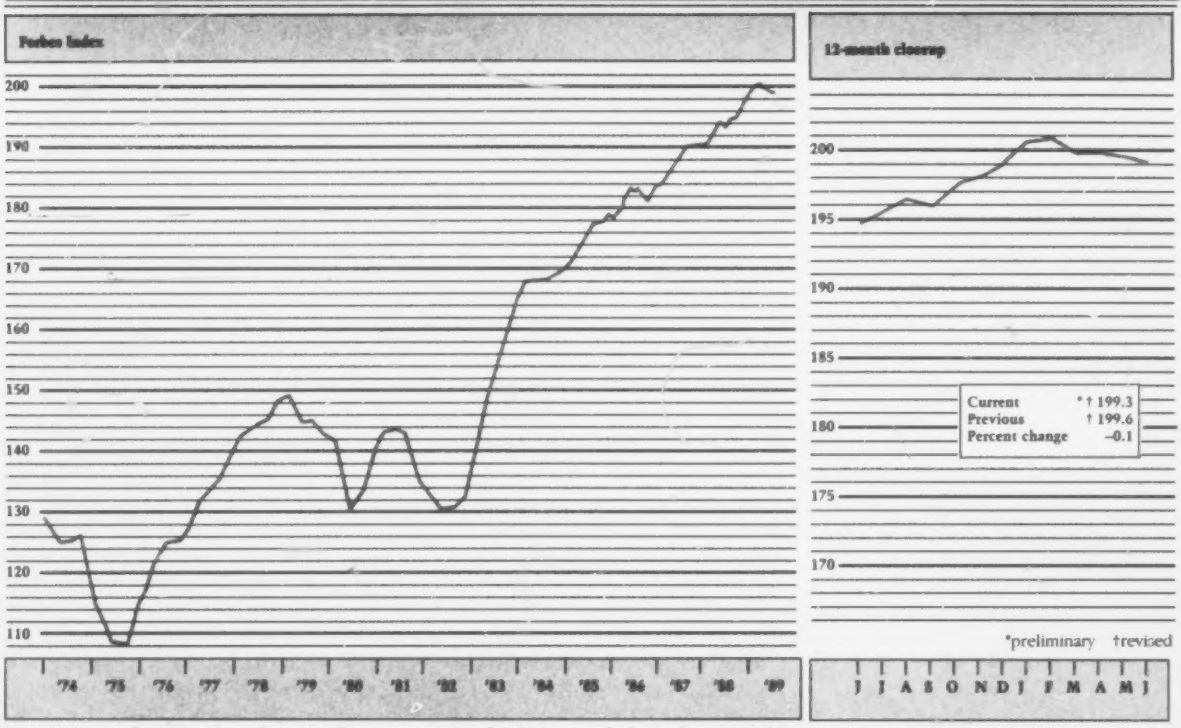
The Forbes Index



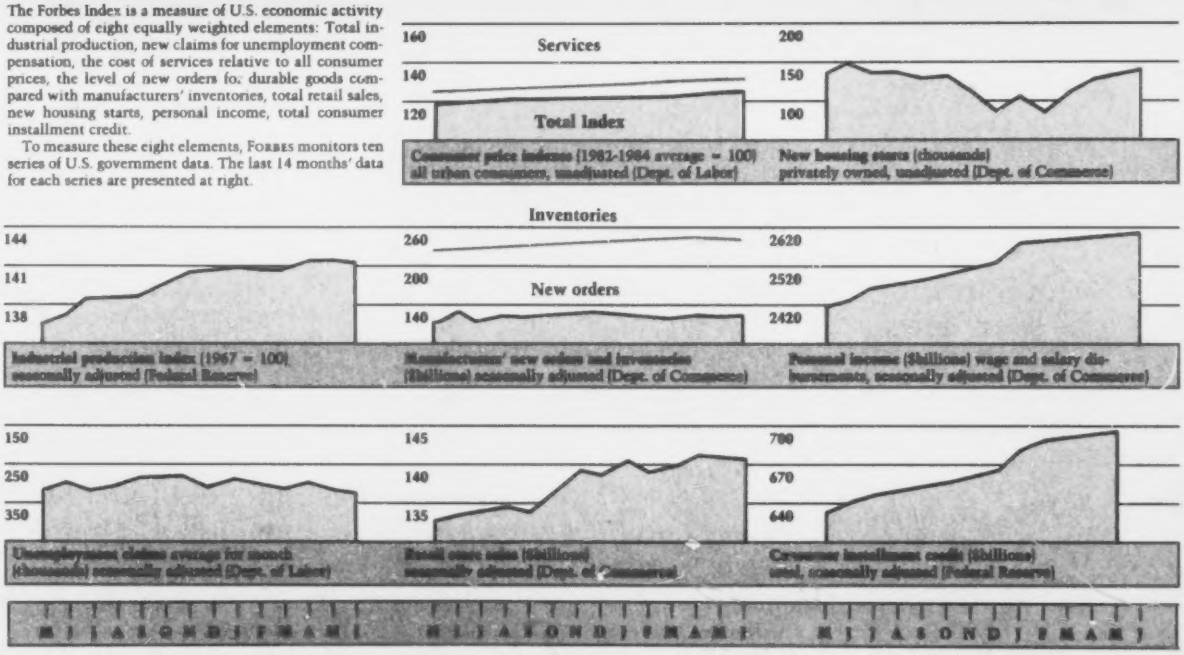
More signs of stagnation. Personal income gained 0.5% in June, to a record $2.6 trillion, but the unemployment rate increased 0.1%. Manufacturers' new orders rose slightly, to $124 billion. Fixed mortgage rates have dropped back under 10%, yet the residential construction market remains pretty dull. New housing starts in June were 4% below the 1988 figure.

The Consumer Price Index edged up 0.2% in June. This was a welcome change following the 0.6% jump in May, which contributed to a 3% increase in the cost of living in the first half of 1989. During the same period last year the CPI rose 2.3%. Inflation seems well under control.

The Forbes Index Components

The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure these eight elements, FORBES monitors ten series of U.S. government data. The last 14 months' data for each series are presented at right.


160
140
120
Services
Total Index
200
150
100
Consumer price indexes (1982-1984 average = 100) all urban consumers, unadjusted (Dept. of Labor)
New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)
Inventories
144
141
138
260
200
140
New orders
2620
2520
2420
Industrial production index (1967 = 100) seasonally adjusted (Federal Reserve)
Manufacturers' new orders and inventories ($billions) seasonally adjusted (Dept. of Commerce)
Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)
150
250
350
145
140
135
700
670
640
Unemployment claims average for month (thousands) seasonally adjusted (Dept. of Labor)
Retail store sales ($billions) seasonally adjusted (Dept. of Commerce)
Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)
M J J A S O N D J F M A M J
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M J J A S O N D J F M A M J

In an era when many managements are more concerned with deals than with minding the store, Royal Dutch/Shell is rather old-fashioned. It concentrates on the very long term and does extremely well.

Time, money and patience

By Toni Mack

IN THE END it will probably be, to put it mildly, an asset to be financially strong," says Royal Dutch/Shell Group Chairman Lodewijk van Wachem. That's not the sort of statement one expects to hear these days from corporate brass. To be "financially strong" implies a timid outfit afraid to use leverage and out of step in these days of go-go deals. But here's Royal Dutch sitting with $8 billion in cash and equivalents. Here is money that could swing deals of gargantuan proportions, money that could buy up the additional oil reserves Royal Dutch clearly needs. But here is the Royal Dutch/Shell Group's management not only sitting on all this money but also counting the cash as a sign of shrewd foresight.

Royal Dutch/Shell, with expected 1989 revenues of around $100 billion, has nosed ahead of Exxon for the title of world's largest oil company *(see table, p. 62)*. But slightly smaller Exxon, spending freely to acquire its own shares, currently has only one-third as much cash as Royal Dutch/Shell.

To understand why the Anglo-Dutch oil giant is letting the cash pile up, it is necessary to understand the company's strategy. At a time when few managements can think beyond tomorrow's headlines, van Wachem and the rest of Royal Dutch management is thinking and managing in terms of major cycles.

"You have to exercise a certain patience," says van Wachem (pronounced van VACK-em). "Markets go up and down, prices go up and down, and therefore if opportunities don't materialize today, they'll come tomorrow." Behind this homily lies a carefully thought-out corporate view of the oil business' future. Royal Dutch/Shell predicates all its planning on the belief that oil prices will be weak for years to come. Thus there is no point in reaching to buy reserves when they will probably be available at lower prices in the not-so-distant future.

Royal Dutch/Shell has enough cash on hand to buy Unocal or Phillips without borrowing a dime and still have a billion left over.

Just imagine, then, what Royal Dutch/Shell could buy if it chose to spend not only its cash but its credit. A study in underleverage, Royal Dutch/Shell has about 15 cents in long-term debt for every dollar of equity. In the spirit of the times, van Wachem could easily leverage his assets into adequate resources to buy Occidental, Texaco, Atlantic Richfield or even Mobil, and still have a fairly clean balance sheet.

Not that such acquisitions would pass muster with antitrusters. But the arithmetic gives an idea of how rich and how liquid Royal Dutch is.

The Royal Dutch/Shell Group has a weakness: It produces only 35% of the oil it refines and markets, buying the rest from others. Exxon is by contrast 42% self-sufficient in crude oil. British Petroleum is 60% self-sufficient. Thus not even the antitrusters could object if Royal Dutch used some of its billions to buy not whole oil companies but vast additional reserves of crude oil.

In light of that, some observers are puzzled about why Royal Dutch is sitting on its cash at a time when other companies are snapping up reserves. But van Wachem thinks that the prices being paid for reserves are too high. "We never wish to succumb to the temptation to lower our investment criteria just because we have the money," he says.

Group Chairman Lodewijk van Wachem ***"Cash is not a bad problem."***

Any number of incompetent managements have tried to hide their failures behind the cloak of "we manage for the long term." But the results of several successive managements of the Royal Dutch/Shell Group have earned for van Wachem and his crew the right to boast about the company's long-term orientation. Consult any stock-price chart going back over many years. A $10,000 investment in Royal Dutch made at the end of 1965, reinvesting dividends, would today be worth $361,800. The investment's compounded annual return over that period is 16%. Annual consumer price inflation over that time: 6%. (Actually there are two ways to buy stock in the Royal Dutch/Shell Group, which is itself owned by two publicly held companies—60% by Royal Dutch Petroleum, headquartered in The Hague, and 40% by Shell Transport & Trading, headquartered in London. Both trade on the New York Stock Exchange, Royal Dutch

Gebhard Krewitt, Visum

Petroleum as ordinary shares and Shell Transport via American Depositary Receipts.)

Now compare Royal Dutch/Shell's inflation-beating stock market performance with that of rival oil giants. A $10,000 investment in Royal Dutch Petroleum made ten years ago would now be worth $89,000 (assuming reinvested dividends and no taxes paid), and the same investment in Shell Transport would be worth $77,190. Invested in Exxon, the $10,000 would have grown to $78,450 over the ten years. In Texaco the investment would be worth $50,220; in Chevron, $43,150.

Russell Hawkins of Houston money manager Fayez Sarofim & Co., whose accounts hold about 3 million Royal Dutch and Shell Transport shares, argues that the Group's willingness to think not just year to year but decade to decade is responsible for much of this performance. "Because they were thinking longer term during the very turbulent decade between 1975 and 1985," he says, "they have positioned themselves in such a way that their momentum is going to carry them for five or ten years. They're bound to do extremely well, and there's little that could hurt them."

Why, if its strategy is sound, does Royal Dutch produce a return on capital that is lower than that of rival Exxon? Since 1984 Royal Dutch and Exxon have invested about the same in capital and exploration spending, around $40 billion in total. Royal Dutch has grown faster than Exxon, but Exxon almost always earns more on capital than does Royal Dutch/Shell. Last year the Anglo-Dutch group earned just over 12% on average capital, to Exxon's 14%. Royal Dutch's return is penalized, of course, by its large holdings of cash. It is also penalized by the Group's willingness to invest in projects where the payoff is extremely long term. Says van Wachem: "It's not easy both to grow and be Top of the Pops in return on capital, because, generally speaking, new investment doesn't initially give you the returns you're looking for."

For example, Royal Dutch discovered the gigantic Troll natural gas field in the Norwegian sector of the North Sea in 1979 and is overseeing its development, which will cost $3 billion. But the gas won't start flowing until 1996 and won't reach peak deliveries until 2002. Yet much of the investment must be made today.

Producing only a third of the crude oil it needs means that Royal Dutch must buy more of its oil in the open market than, say, British Petroleum does—65% versus 40%. The difference between those figures is a lot of oil: 1.3 million barrels a day.

Because it has to buy so much crude, Royal Dutch/Shell has had to live by its wits in the buying, refining, marketing and transporting of oil. Its refining and marketing operations are highly efficient. When oil prices are depressed, as now, the margins at those operations widen. In 1988 Royal Dutch earned $1.24 for every barrel of refined product it sold. In 1983, when oil prices were much higher, it earned only 83 cents a barrel.

Clearly, were crude's price to climb again, the Anglo-Dutch firm would again be at a disadvantage to Exxon, British Petroleum and other companies that supply more of the oil they need. And now we come to the nub of Royal Dutch's long-term strategy: It is betting that oil prices are going nowhere over the next few years, and it is investing in projects that will pay off even if oil prices remain at current low levels.

In Gabon, in equatorial Africa, Royal Dutch in 1985 found the Rabi-Kounga field. This field is, in industry terms, an elephant, meaning it contains at least 400 million barrels—and, rumor has it, possibly 1 billion barrels—of oil. Royal Dutch/Shell owns 32% of Rabi-Kounga, and the field is profitable at today's prices. More recently, the Group paid $1.5 billion for properties in promising, relatively unexplored Colombia, where it has a chance to find more low-cost reserves.

Add it all up, and over the last five years the Royal Dutch/Shell Group has been adding new reserves faster than it has been using up older reserves. Over this period it has used up 5 billion barrels of its own oil and gas while adding 6.4 billion barrels in new reserves. Oilmen call the ability of a company to offset the reserves it produces its "replacement ratio." Royal Dutch's replacement ratio of 127% compares favorably against Exxon's 105%, in itself a respectable figure.

"Royal Dutch/Shell," says Albert J. Anton, an energy analyst at Carl Pforzheimer & Co., "has turned into a first-rate exploration and production company."

But note that most of this spending has been in exploration, not for buying oil reserves in the marketplace. Unlike a lot of its competitors, Royal Dutch/Shell doesn't believe that it is cheaper to drill for oil on Wall Street. In the marketplace, Arco, Conoco and others paid $7 on average for each barrel of Tenneco's reserves last year. The big British independent Enterprise Oil recently agreed to pay $1.4 billion, just under $7 a barrel, for Texas Eastern's mostly North Sea properties. In 1988 British Petroleum paid nearly $5 billion, almost eight times cash flow, for Britoil. Gas reserves, too, are changing hands: Chevron, for example, paid nearly $3 billion for Tenneco's Gulf of Mexico reserves. Amerada Hess plans to pay over $900 million for Transco Energy's mostly gas reserves.

Where in all this activity was Royal Dutch/Shell? "I can assure you we've looked at virtually everything that's been on the market, and in many cases we have bid," says van Wachem. "But I don't understand at all the [other] bids which have been made and the deals which have been consummated. We won't let ourselves be caught up in auction fever."

The Royal Dutch strategy assumes that oil prices will remain weak for a long time to come. The group's planners believe that the increase in de-

Ranking big oil

The colossus here, the Royal Dutch/Shell Group, which includes Royal Dutch Petroleum and Shell Transport & Trading, could easily engulf Phillips or Unocal, and even Mobil wouldn't be too great a stretch.

Company	Market capitalization ($mil)	Recent price	Dividend yield	Latest 12 months Revenues ($mil)	Latest 12 months Earnings per share or ADR	Reserves (in oil-equivalent barrels) Per share or ADR	Refined product sales (in barrels) Per share or ADR
Amoco	$24,305	47	4.1%	$25,377	$3.64	11.7	0.8
Atlantic Richfield	17,370	98¾	4.6	17,400	11.05	24.8	1.3
British Petroleum	26,803	60⅝	5.1	43,022	5.09	16.3	2.1
Chevron	18,665	54½	5.1	29,200	3.83	14.9	2.6
Exxon	57,689	45	5.3	89,760	3.11	10.9	1.2
Mobil	21,167	51½	5.1	54,511	4.50	17.9	2.2
Occidental Petroleum	7,431	27⅝	9.1	20,390	0.93	4.5	NA
Phillips Petroleum	5,637	23⅛	4.3	12,070	3.03	6.9	0.9
Royal Dutch Petroleum	36,120	67⅜	5.0	59,959[1]	7.17[1]	17.1[1]	2.1[1]
Shell Transport & Trading	23,409	42⅜	5.6	39,972[1]	3.96[1]	11.1[1]	1.3[1]
Texaco	14,066	53	5.7[2]	35,209	9.65	14.7	3.8
Unocal	5,573	47¼	2.1	10,951	3.8[1]	15.3	1.6

[1]Company's share of Royal Dutch/Shell Group. [2]Excludes special dividends. NA: Not applicable.

mand for oil will be modest for quite some time. This will strain OPEC's discipline. Even if OPEC maintains discipline, said John Jennings, a Royal Dutch/Shell managing director, in a speech to European oil executives in Norway, "the paradox is that the higher the price they successfully defend, the slower demand will grow, and the longer non-OPEC production will hold up." The speech was delivered last year, but it still characterizes the Group's thinking.

The upshot, predicts Jennings: "Oil prices may well stay in the $10-to-$20 range—in money of the day—until well into the 1990s. Moreover, these prices will only materialize if OPEC keeps its act together."

The strategy thus becomes clear: Why pay up for reserves? Better to invest for the very long term and, in the interim, concentrate on squeezing every drop of efficiency out of what remains a highly competitive business. Remember this: Royal Dutch/Shell has always been short of crude oil. It has compensated for this by being the world's most efficient refiner and marketer.

Van Wachem has been investing to keep those efficient refineries and marketing operations efficient. At the Pernis refinery in the Netherlands, for example, Royal Dutch/Shell is using a completely new technology to inject hydrogen into the residue left after ordinary refining of crude oil, thereby increasing the yield of high-margin products like gasoline and jet fuel and halving the output of the remaining residue to 14%. Says van Wachem: "Over time, as long as we maintain a competitive edge, we darn well should get a return on our refining investment."

Certainly the chemical business is one area where Royal Dutch/Shell is getting a healthy return. Royal Dutch's chemical operations are bigger than those of any of its oil industry rivals. Its forte is bulk chemicals such as polypropylene, used in products like car bumpers and packaging and where Royal Dutch is the world's second-largest producer. Last year the Group earned $1.8 billion in chemicals, up almost fourfold since 1984. Dow Chemical, by way of context, earned $2.4 billion.

In natural gas, too, Royal Dutch/Shell has placed its long-term bets wisely. The Group is today the world's largest private gas producer and its largest liquefied natural gas trader. In October Royal Dutch will begin delivering more than 2 million tons of LNG annually from Australia's North West Shelf to Japan, a $9 billion project five years in the works and 23% owned by Royal Dutch.

"With current crude oil prices, [the North West Shelf project's] return will be fairly modest," says van Wachem. "But it has a very, very long life span, 20 years or longer," for a handsome lifetime return. And in May the Group announced a huge project to export LNG from Nigeria to European and U.S. East Coast markets, starting in 1995.

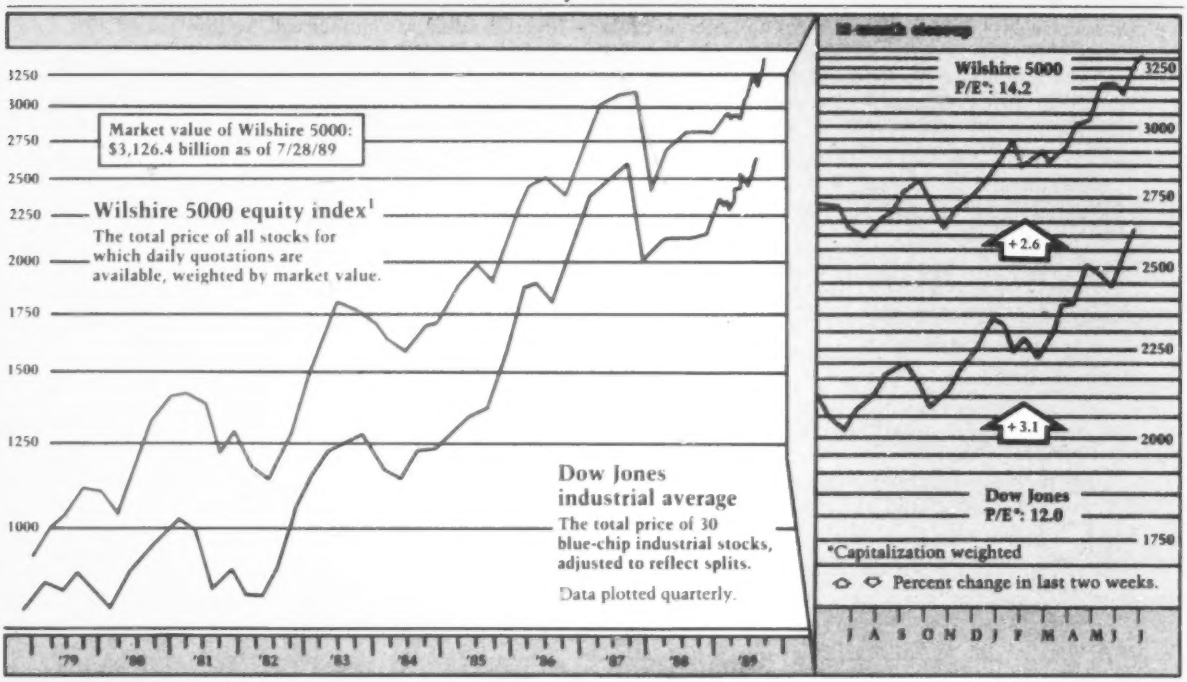
One place Royal Dutch does need to invest more capital is in the refining business of Shell Oil, the U.S. company whose last minority shares Royal Dutch/Shell bought in four years ago. Shell Oil's refining and marketing profits have begun to lag competitors'. Dean Witter analyst George Friesen estimates that even without a nasty refinery explosion, Royal Dutch would have earned only $1.35 a barrel in the U.S. last year, below Exxon's $1.64 and Mobil's $1.50. Van Wachem says the damaged refinery will be restored with state-of-the-art equipment and that other U.S. refinery modernizations are contemplated. "Acquisitions," he says, "don't necessarily appeal to me more than a sound investment based on one's own existing holdings or technology."

Over the last several years, Exxon has spent $15 billion buying in about 28% of its shares. In effect, that's what Royal Dutch/Shell did with the purchase of Shell U.S., but British and Dutch tax laws make stock buybacks of Royal Dutch Petroleum and Shell Transport unattractive. Given this restriction, Royal Dutch has settled on a policy of building cash, not stinting on attractive long-term projects—and waiting for future opportunities in a business that is likely to remain intensely competitive for years to come. A smaller company could perhaps be more opportunistic, but Royal Dutch is not a small company. Its steady-at-the-helm, never-mind-the-squalls-and-breezes approach is probably just right for a company of its size and spread.

This being so, says van Wachem, "Building up cash is not a bad problem to have." ■

The Forbes/Wilshire 5000 Review

Edited by Steve Kichen


Market value of Wilshire 5000: $3,126.4 billion as of 7/28/89
Wilshire 5000 equity index[1]
The total price of all stocks for which daily quotations are available, weighted by market value.
Dow Jones industrial average
The total price of 30 blue-chip industrial stocks, adjusted to reflect splits.
Data plotted quarterly.
Wilshire 5000 P/E*: 14.2
Dow Jones P/E*: 12.0
+2.6
+3.1
*Capitalization weighted
Percent change in last two weeks.

Erasing a bad dream. A slowdown in the growth of the Consumer Price Index and falling interest rates pushed the market to record levels. Trading volume on the New York Stock Exchange picked up sharply and the NYSE composite, S&P 500 and Wilshire indexes hit new highs. The Dow industrials gained over 3% in the last two weeks alone and moved within striking distance of their pre-crash peak. Two Dow issues—Exxon and Merck—raised their dividends nearly 10%. At the same time that the government announced an extension of "voluntary" steel quotas, Bethlehem Steel (another Dow stock) declared its first dividend since September 1985.

Is the market overpriced? William LeFevre, a market strategist with Advest, doesn't think so. He points out the Dow's current P/E (12) is actually lower than it was Oct. 20, 1987, the day after the 508-point massacre. At the market's peak on Aug. 25, 1987, the Dow industrials were selling at nearly 22 times earnings.

Closeup On the Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[2]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	6.6	6.8	8.0	7.0	4.3	4.0
in last 52 weeks	23.8	23.3	23.8	24.1	22.3	16.9

Stock performance based on six key investor yardsticks[3]

Percent change	Company size		Volatility[4]		P/E multiple		Dividend yield		Growth profile[5]		Share price	
	large	small	high	low	over 22	under 8	over 4.2%	none	high	low	over $36	under $5
in last 4 weeks	6.9	3.0	4.3	3.9	4.9	3.0	2.6	3.6	4.8	3.9	3.7	2.7
in last 52 weeks	26.7	24.3	13.6	15.3	28.4	13.6	6.7	22.6	19.3	17.6	27.2	7.3

[1]Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. [2]Based on sales. [3]Equal weighted indices containing all shares with market capitalizations over $10 million. [4]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable. [5]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

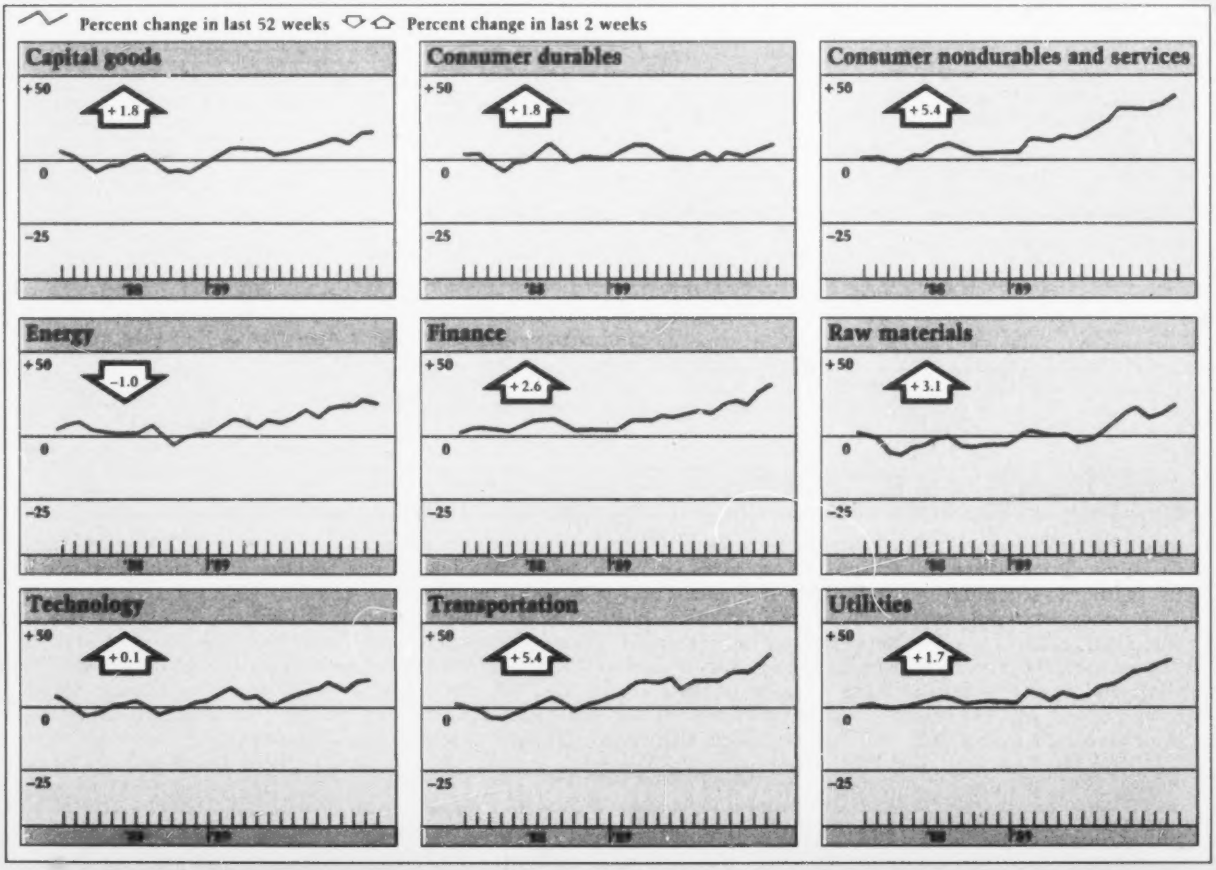
Note: All data for periods ending 7/28/89. Prepared by Wilshire Associates, Santa Monica, Calif.

Steven Ramos

Where the Action Is

Just what the doctor ordered. Another sector is hot—pharmaceuticals—and for a familiar reason: merger fever. Drug stocks led the consumer nondurables sector to a 5% gain for the recent two-week period. Marion Laboratories jumped 42% when it agreed to a partial merger with Merrell Dow Pharmaceuticals, a subsidiary of Dow Chemical. Then, on July 27, the formation of Bristol-Myers Squibb was announced; Squibb gained 39% for the two-week period.

Among the transportation issues, UAL, the holding company for United Airlines, rose 9% on takeover speculation. Transportation stocks on the whole went up over 5%.



What the Analysts Think

Sinking ship. In the last two weeks the consensus 1989 earnings estimates for the consumer durables companies nose-dived. For example, analysts responded to a 76% drop in third-quarter income for Outboard Marine Corp. by cutting their 1989 consensus estimate by 22%, from $3.67 a share to $2.87 a share. Other stocks in this group with big estimate cuts are Winnebago Industries and Thor Industries.

Forecasting the Forbes Sales 500

Performance period	Average earnings per share	P/E
latest 12 months	$3.31	13.7
1989 estimates	3.73	12.2
1990 estimates	4.06	11.2

Rank based on change in estimate	Sector	Estimated 1989 EPS	Estimated 1989 P/E	% change in 1989 estimate in 2 weeks	% change in 1989 estimate in 4 weeks
1	Energy	$3.33	12.1	0.07%	0.39%
2	Consumer nondurables	2.60	16.6	-0.10	-0.12
3	Capital goods	2.95	14.0	-0.18	-0.50
4	Utilities	2.96	12.4	-0.18	-0.23
5	Finance	3.44	10.3	-0.83	-1.19
6	Raw materials	3.38	10.0	-0.88	-1.31
7	Technology	3.04	12.1	-1.07	-1.59
8	Transportation	2.69	12.5	-1.61	-1.66
9	Consumer durables	3.40	11.7	-2.01	-2.42

Earnings projections are capitalization-weighted consensus estimates from over 3,000 security analysts. Data are compiled and updated continually by the Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan, a New York-based brokerage firm.

Note: All data for periods ending 7/28/89. Prepared by Wilshire Associates, Santa Monica, Calif.; IBES, a service of Lynch, Jones & Ryan, New York.

The Forbes/TUCS Institutional Portfolio Report

Edited by Steve Kichen

Does it pay to have a pro manage your money? Hardly, according to recent data from the Trust Universe Comparison Service, a database maintained by Santa Monica-based Wilshire Associates. The TUCS universe of $390 billion in assets represents 25% of all private pension assets. TUCS reports that over the last five years the median equity portfolio had an annualized total return of 20.5%—before management expenses. That was only slightly better than the 20.1% return for the S&P 500. The pros' average return more comfortably beat the 19.1% return for the Wilshire index, which includes the smaller-capitalization companies that haven't been doing well in recent years. For the quarter ending June 30 the median equity portfolio showed a total return of 8.3%, against the S&P 500's 8.8%.

Managers of fixed-income portfolios have little to brag about, either. Over the five-year period they show an annualized total return of 14.4%, less than the 14.5% for the Merrill Lynch Corporate/Government index—again, before fees. The average pension fund would have done better with its bond money in a passive index fund.

The "Segment performance and cash flows" table shows the net movement of funds into and out of the typical institutional portfolio. (The effect of changes in security prices is backed out of these figures.) On balance, there was a 1.5% drain of assets from the institutional portfolio in the last quarter, as redemptions continue to exceed pension plan contributions. The one exception is cash, which shows a net increase of 5.5% for the quarter.

Nevertheless, the relative weight of cash in the portfolio fell from 10.9% in March to 9.6% in June. The table "Where the institutions put their money" does reflect the effect of changing security prices. According to George Wolfe, a vice president at Wilshire Associates, "Cash inflows increased due to profit-taking in the equity and fixed-income segment. But the returns from the other segments were so strong that their allocation in the portfolio rose at the expense of cash."

In the last quarter portfolio managers who focused on growth stocks had the best total returns. Wolfe says these portfolios had a heavier weighting of consumer nondurable issues and a light weighting of energy and utility stocks. "Growth stocks did not do well [in general], but the emphasis on consumer nondurables helped the growth managers in the institutional portfolio," he says.

How different managers performed

Manager style	Total return[3] recent quarter	12 months	24 months[4]
Diversified	7.7%	18.6%	6.7%
Growth	9.5	19.0	5.7
Growth—emerging	8.3	16.7	8.9
Market timer	7.4	16.3	6.1
Sector rotator	7.3	17.4	6.7
Value	7.1	18.7	7.9

Where the institutions put their money

Segment	Portfolio weighting—most recent quarter	previous quarter
Equity	61.9%	61.6%
Fixed income	27.9	26.8
Cash and equivalents	9.6	10.9
Convertibles	0.1	0.1
Other[1]	0.5	0.5

Equity portfolio characteristics

	Institutional portfolios	Wilshire 5000
Price/earnings ratio	14.9	13.0
Dividend yield	3.3%	3.2%
Beta[2]	1.05	1.07
Price/sales	1.28	1.37
Price/book	2.78	2.66

Segment performance and cash flows

Segment	Most recent quarter—median total return	shift in institutional holdings	Latest 12 months—median total return	shift in institutional holdings
Equity	8.3%	–1.5%	19.1%	–4.0%
Fixed income	7.4	–0.9	11.6	–3.6
Cash equiv	2.4	5.5	9.1	10.5
Convertibles	5.2	–0.1	12.1	–3.1
Other[1]	3.6	–0.1	7.3	–0.1
Total	7.0	–1.5	14.9	–4.1

Position changes: These securities had the greatest relative change in holdings over the last quarter

Security	Increase in holdings	Total quarter return	Security	Decrease in holdings	Total quarter return
Philip Morris	6.9%	16.3%	Paramount	–3.7%	24.5%
IBM	6.3	3.6	Bell Atlantic	–1.9	16.4
Eli Lilly	3.6	6.6	Sears Roebuck	–1.5	1.3
Exxon	2.6	1.6	American Brands	–1.4	6.0
General Elec	2.5	16.9	Digital Equip	–1.4	–6.9
Federal Natl Mtg	2.5	40.5	Amoco	–1.3	8.5
Texaco	2.4	3.6	Apple Computer	–1.3	16.0
El du Pont	2.2	7.4	Rockwell Intl	–1.3	–0.2
MCI	2.1	26.2	Am Info Tech	–1.3	12.6
Thiokol	2.1	3.6	Affiliated Pubs	–1.3	15.3

[1]Real estate, foreign investments, venture capital, guaranteed insurance contracts. [2]A measure of risk. A stock with a beta of 1.00 tends to move up or down at the same rate as the S&P 500. [3]Includes all forms of investments. [4]Figures for 24 months are annualized.

Note: Data for quarter ending 6/30/89. Prepared by the Trust Universe Comparison Service (TUCS®), a service of Wilshire Associates, Santa Monica, Calif.

Where the institutions are—and aren't

Most overweighted relative to Wilshire 5000			Most underweighted relative to Wilshire 5000		
	% of			% of	
Security	institutional universe	Wilshire 5000	Security	institutional universe	Wilshire 5000
Philip Morris	1.4%	1.1%	Exxon	0.6%	1.9%
Cigna	0.4	0.1	IBM	1.7	2.2
May Dept Stores	0.4	0.2	Glaxo Holdings Plc	0.0*	0.5
Alcoa	0.4	0.2	B.A.T Inds ADR	0.1	0.5
Federal Express	0.3	0.1	El du Pont de Nemours	0.5	0.9
Toys "R" Us	0.4	0.2	General Electric	1.2	1.6
JC Penney	0.4	0.2	Sony	0.0*	0.5
Xerox	0.4	0.2	Kubota	0.0*	0.4
Computer Assocs Intl	0.3	0.1	Imperial Chem Inds ADR	0.1	0.5
Union Pacific	0.4	0.2	Ito Yokado	0.0*	0.3

*Exact figure is less than 0.05%.

Herd on The Street. When the institutions love a stock, they really love it. In the last quarter they increased their holdings of Philip Morris 7%, to where Philip Morris represents 1.4% of the institutional equity portfolio but only 1.1% of the Wilshire index. Marc Cohen, an analyst at Sanford C. Bernstein & Co., recounts the arguments for the stock: "It is a company with predictable earnings growth at a time when people are concerned with an economic slowdown." Also, falling interest rates will make it easier for the company to pay off debts from the General Foods and Kraft acquisitions. Other institutionally overweighted stocks: Cigna and May Department Stores.

Sector activity and top holdings

% of institutional portfolio: ■ most recent quarter ■ previous quarter

Capital goods	5.6% 5.8%	Consumer durables	2.9% 3.3%	Consumer nondurables	31.1% 31.5%
	total return		total return		total return
General Electric	16.9%	General Motors	2.5%	Philip Morris	16.3%
Emerson Electric	11.1	Ford Motor	0.8	Merck	3.9
Westinghouse Electric	15.5	Honda Motor	–11.0	Wal-Mart Stores	17.5
Caterpillar	2.1	Chrysler	17.5	Coca-Cola	10.7
Deere & Co	6.8	Goodyear Tire & Rubber	9.0	Sears Roebuck	1.3
Energy	**8.8%** 7.9%	**Finance**	**13.3%** 12.5%	**Raw materials**	**14.1%** 14.6%
	total return		total return		total return
Amoco	8.5%	American Express	6.5%	Waste Management	15.1%
Exxon	1.6	American Intl Group	3.6	Dow Chemical	–7.6
Atlantic Richfield	5.5	Citicorp	6.1	El du Pont de Nemours	7.4
Mobil	2.1	JP Morgan	–3.1	Alcoa	7.8
Chevron	3.7	Cigna	6.3	Monsanto	13.2
Technology	**14.4%** 15.4%	**Transportation**	**2.7%** 2.9%	**Utilities**	**7.2%** 6.1%
	total return		total return		total return
IBM	3.6%	Union Pacific	6.7%	AT&T	12.0%
Digital Equipment	–6.9	Federal Express	–4.7	BellSouth	12.0
Apple Computer	16.0	Norfolk Southern	7.5	Nynex	12.8
Boeing	6.1	CSX	8.5	Bell Atlantic	16.4
Minn Mining & Mfg	6.9	Ryder Systems	5.6	GTE	17.1